



U.S.-Taiwan Trade Relations

Overview

With a population of 23.6 million people, Taiwan has evolved to become a highly developed, dynamic, and globally competitive economy. In 2018, Taiwan's gross domestic product (GDP) on a purchasing power parity (PPP) basis was \$1.25 trillion, making it the world's 22nd-largest economy. Its per capita GDP on a PPP basis (a common measurement of living standards) was 19% greater than Japan's and about 85% of the U.S. level. In 2018, Taiwan was the world's 21st-largest trading economy for goods and services. The World Economic Forum ranked Taiwan as the world's 13th-most competitive economy in 2018, and the World Bank ranked Taiwan the 15th-best economy in terms of the ease of doing business. Taiwan is a major global producer of information and communications technology (ICT) products and semiconductors.

Taiwan's Economic Challenges

Taiwan's economy is very dependent on international trade. Taiwan's exports of goods and services in 2018 totaled \$393 billion (equivalent to 67% of its nominal GDP), and were up 5.4% over 2017 levels. Taiwan's real GDP growth averaged 2.9% from 2009 to 2018, and the International Monetary Fund projects that rate will average 2.1% over the next five years. Taiwan faces a number of economic challenges, including declining competitiveness for many industries, inability to participate in various regional trade agreements, stagnant wages, and a lack of job opportunities for some college graduates. A 2018 survey by the Importers and Exporters Association of Taipei assessed Taiwan to have the 17th-most competitive trading economy out of 54 major countries surveyed, which was down from 9th in its 2011 survey. While unemployment is low at 3.6% (January 2019), the rate for those aged 20-24 is 11.7%. The Taiwanese government estimates that in 2016, 728,000 Taiwanese citizens were employed overseas, of which 407,000 (56%) worked in China. The Taiwanese government has raised concerns over China's attempts to expand incentives for Taiwanese people to move to China for work, investment, and study.

Many in Taiwan, especially those in the Democratic Progressive Party (DPP), view the slowing Taiwanese economy as a consequence of Taiwan becoming overly reliant on China for economic growth (In 2018, 41% of Taiwan's merchandise exports went to mainland China and Hong Kong), and because closer cross-strait economic ties have led to the relocation of many Taiwanese industries to mainland China, which, many argue, may have contributed to lost jobs and stagnant wages in Taiwan. Others in Taiwan, especially those in the Kuomintang (KMT), contend that closer economic ties with China have benefited Taiwan's economy and argue that boosting those ties further, such as through the implementation of new trade agreements, will put Taiwan in a good position to take

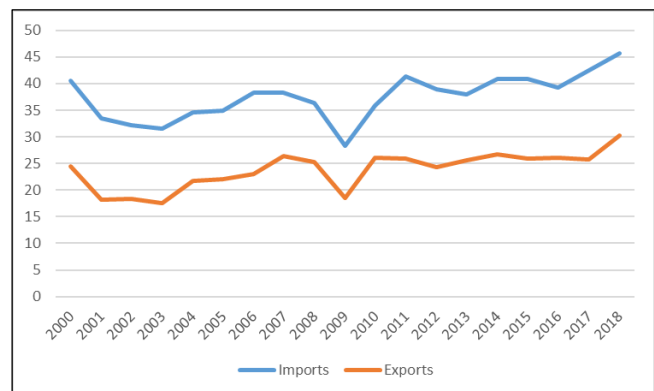
advantage of opportunities that might arise as China pursues new economic reforms and seeks to promote private consumption as the main driver of its economy.

Economic issues were a major focus of the January 2016 election in Taiwan, which resulted in a major victory for the DPP and its presidential candidate, Dr. Tsai Ing-wen. She proposed a "New Model for Economic Development" focused mainly on innovation, job creation, and addressing widening income gaps, such as by boosting social safety net policies. In an effort to lessen Taiwan's reliance on China's economy, Tsai has called for closer economic cooperation with the United States and has said that "there is an urgent need" for Taiwan to participate in the proposed Trans-Pacific Partnership (TPP), although the U.S. withdrawal from the TPP in January 2017 complicated this strategy.

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U.S. trade data show that in 2018, Taiwan was the United States' 11th-largest merchandise trading partner (at \$76 billion), 15th-largest export market (\$30 billion), and the 13th-largest source of imports (\$46 billion). From 2000 to 2018, U.S. exports to Taiwan grew by 24%, while imports grew by 13%. In comparison, U.S. global exports and imports rose by 113% and 109%, respectively.

Figure 1. U.S.-Taiwan Merchandise Trade: 2000-2018
\$ in billions



Source: U.S. International Trade Commission (USITC).

U.S. data on trade with Taiwan may understate the importance of Taiwan to the U.S. economy because of the role of global supply chains. For example, many of the consumer electronic products developed by Apple Inc. (such as iPads and iPhones) are assembled in China by Taiwanese-owned firms. Taiwan has moved a significant level of its labor-intensive manufacturing overseas, especially to China. This is reflected in Taiwan's data on export orders received by its firms from abroad. That data indicate that the percentage of export orders produced abroad rose from 13% in 2000 to 52% in 2018; and for ICT products, this figure rose from 25% to 94%.

Taiwan government data indicate that its manufacturing firms received export orders from the United States worth \$146 billion in 2018, which was more than three times larger than official U.S. data on its imports from Taiwan in 2018. From 2000 to 2018, U.S. orders to Taiwanese firms increased by 199%. The United States is the largest source of Taiwan's export orders, accounting for 29% of the total in 2018 (China and Hong Kong together accounted for 25%). This indicates that U.S.-Taiwan commercial ties are significantly greater (and more complex) than are reflected in standard bilateral trade data. Cumulative U.S. FDI flows to and from Taiwan through 2017 (on a historical-cost basis) totaled \$17 billion and \$22.4 billion, respectively.

Figure 2. Comparison of U.S. Export Orders Placed with Taiwanese Firms and U.S. Data on Merchandise Imports from Taiwan: 2000-2018 (\$billions)



Source: Taiwan export order data are from the Taiwan Ministry of Economic Affairs. Data on U.S. imports are from the USITC.

Taiwan's Dilemma on Trade

Taiwan's economy is heavily dependent on trade. Yet, its share of global merchandise exports fell from a peak of 2.5% in 1993 to 1.6% in 2018. Taiwanese officials attribute this trend in part to the proliferation of bilateral and regional free trade agreements (FTAs), especially among other major Asia-Pacific economies. Taiwan is currently not a party to these FTAs, in large part, it is believed, because China often pressures other countries to avoid signing trade deals with Taiwan. Taiwanese officials have expressed concern that its exclusion from FTAs could hurt the long-term competitiveness of many Taiwanese industries, which could reduce trade flows and diminish economic growth. To illustrate, countries with FTAs often reduce most or all of their tariff levels to zero. If Taiwan is not an FTA member, its products will be assessed the non-FTA (and thus higher) tariffs.

Taiwan has sought to boost commercial ties with China in order to help its firms take advantage of the opportunities arising from China's large and rapidly growing economy and to help reduce political tensions with China (including the hope that by expanding economic ties, China will lessen its opposition to Taiwan's attempts to negotiate FTAs). After coming into office in 2008, Taiwanese President Ma Ying-jeou sought to expand cross-strait commercial ties by lifting restrictions on direct trade, transportation, and postal links. He further proposed an Economic Cooperation Framework Agreement (ECFA) with China, described as a plan to significantly liberalize trade and investment barriers

over time. ECFA negotiations began in January 2010 and concluded in June 2010. The ECFA identified four main agreements that would be negotiated: trade in goods, trade in services, investment, and dispute settlement.

Following the signing of the ECFA, press reports indicated that China appeared to be less opposed to Taiwan seeking trade agreements with other countries, which Taiwan often refers to as "economic cooperation agreements." Taiwan concluded such agreements with New Zealand and Singapore in 2013. China-Taiwan trade relations soured in the spring of 2014 when consideration of a cross-strait Trade in Services Agreement (TiSA) by Taiwan's Legislative Yuan led to widespread protests (the "Sunflower Movement") and forced the government to suspend a vote on TiSA. Since then, cross-strait initiatives to boost commercial ties appear to have been put on hold.

The DPP has sought to maintain stable economic relations with China, but has not indicated whether it plans to reconsider the TISA agreement or pursue a new goods agreement under ECFA. President Tsai has not explicitly reaffirmed Taiwan's acceptance of the "1992 consensus" (where the two sides essentially agreed that there was one China but two interpretations), and this appears to have angered Chinese authorities enough so that may have imposed restrictions on mainland tourists visiting Taiwan (Arrivals from the mainland fell from 4.2 million in 2015 to 2.7 million in 2018, a 36% drop).

Recent U.S. Trade Action and Taiwan

The Trump Administration has pursued a number of trade policies that could hurt Taiwan's economy. In March 2018, President imposed increased tariffs on U.S. imports of steel (by 25%) and aluminum (10%) under Section 232. In August 2017, the Trump Administration initiated a Section 301 investigation of China's policies on intellectual property, forced technology transfer, and innovation that may harm the U.S. economy, and it has subsequently increased tariffs on \$250 billion worth of products from China. China has raised tariffs on \$110 billion worth of imports from the United States. These tit-for-tat retaliation measures could disrupt global supply chains where Taiwanese firms play a significant role, especially for products assembled in China and exported to the United States. A January 2019 business survey by the American Chamber in Taipei found that 45.8% of those surveyed said they were very or somewhat confident about the economic prospects in Taiwan for 2019, a 10 percentage point drop from last year, caused in part by the ongoing U.S.-China trade conflict.

Several Members of Congress have expressed support for boosting commercial relations with Taiwan, including a U.S.-Taiwan FTA. Taiwan's trade barriers on U.S. agricultural products (in particular on U.S. beef and pork products containing ractopamine) are a major source of bilateral trade tensions.

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IF10256

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